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CHINA CHENGTONG DEVELOPMENT GROUP LIMITED

中國誠通發展集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 217)

ANNOUNCEMENT OF 2019 FINAL RESULTS

FINANCIAL HIGHLIGHTS

- Turnover for the year ended 31 December 2019 amounted to approximately HK\$1,110.60 million, representing a year-on-year increase of approximately 9%.
- Profit before income tax amounted to approximately HK\$90.01 million, representing a year-on-year decrease of approximately 47%.
- Gross profit margin was approximately 14%, representing a year-on-year increase of approximately 3%.
- Earnings per share was approximately HK0.82 cents, representing a year-on-year decrease of approximately HK1.14 cents.
- As at 31 December 2019, the cash (including pledged bank deposits, deposits in other financial institutions, bank balances and cash) held by the Group amounted to approximately HK\$738.98 million.
- As at 31 December 2019, the debt to equity ratio (expressed as bank borrowings divided by total equity) was approximately 10%, representing a year-on-year increase of approximately 1%.
- The Board has resolved not to declare any final dividend for the year ended 31 December 2019.

The board (“**Board**”) of directors (“**Directors**”) of China Chengtong Development Group Limited (“**Company**”) would like to announce the audited consolidated results of the Company and its subsidiaries (collectively, “**Group**”) for the year ended 31 December 2019 together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 HK\$'000
Turnover	4	1,110,598	1,020,892
Cost of sales		<u>(955,942)</u>	<u>(911,992)</u>
Gross profit		154,656	108,900
Other income	4	59,006	58,579
Selling expenses		(20,519)	(14,057)
Administrative expenses		(92,076)	(92,337)
Gain on disposal of a subsidiary		–	110,799
Fair value (loss)/gain on investment properties		(5,051)	3,535
Finance costs		<u>(6,007)</u>	<u>(6,505)</u>
Profit before income tax		90,009	168,914
Income tax expense	5	<u>(45,909)</u>	<u>(57,499)</u>
Profit for the year	6	<u>44,100</u>	<u>111,415</u>
Profit/(loss) for the year attributable to:			
Owners of the Company		47,539	113,440
Non-controlling interests		<u>(3,439)</u>	<u>(2,025)</u>
		<u>44,100</u>	<u>111,415</u>
Earnings per share	8		
– Basic		<u>HK0.82 cent</u>	<u>HK1.96 cents</u>
– Diluted		<u>HK0.82 cent</u>	<u>HK1.96 cents</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year	44,100	111,415
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Net change in fair value of equity investments at fair value through other comprehensive income	29,893	(66,040)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation to presentation currency	(61,823)	(141,787)
Exchange differences reclassified to profit or loss on disposal of a subsidiary	–	486
Transfer to profit or loss upon disposal of debt investments measured at fair value through other comprehensive income	–	1,746
Net change in fair value of debt investments measured at fair value through other comprehensive income	–	7,421
Total comprehensive income for the year	<u>12,170</u>	<u>(86,759)</u>
Total comprehensive income attributable to:		
Owners of the Company	19,134	(77,969)
Non-controlling interests	<u>(6,964)</u>	<u>(8,790)</u>
	<u>12,170</u>	<u>(86,759)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		241,834	187,803
Prepaid land lease payments		–	38,592
Investment properties		93,939	101,528
Loans receivable	<i>10</i>	684,689	245,700
Other financial assets	<i>11</i>	4,267	4,984
		<u>1,024,729</u>	<u>578,607</u>
Current assets			
Properties held for sale		128,655	202,005
Properties under development		205,688	152,233
Properties held for development		260,661	281,386
Inventories		4,036	15,970
Trade and other receivables	<i>9</i>	136,054	186,706
Loans receivable	<i>10</i>	442,135	421,236
Amount due from a related party		34,431	–
Prepaid land lease payments		–	2,011
Other financial assets	<i>11</i>	544,816	840,612
Taxation recoverable		1,846	2,119
Pledged bank deposits		4,462	3,815
Deposits in other financial institution		2,157	112,338
Bank balances and cash		732,356	791,265
		<u>2,497,297</u>	<u>3,011,696</u>
Assets classified as held for sale	<i>12</i>	<u>78,635</u>	–
		<u>2,575,932</u>	<u>3,011,696</u>

	<i>Notes</i>	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current liabilities			
Trade and other payables	<i>13</i>	173,648	120,726
Contract liabilities	<i>14</i>	134,637	207,096
Lease liabilities		3,528	–
Taxation payable		25,877	38,843
Bank borrowings		277,700	274,100
Unsecured other loan		600	600
		<u>615,990</u>	<u>641,365</u>
Liabilities associated with assets classified as held for sale	<i>12</i>	<u>20,049</u>	–
		<u>636,039</u>	<u>641,365</u>
Net current assets		<u>1,939,893</u>	<u>2,370,331</u>
Total assets less current liabilities		<u>2,964,622</u>	<u>2,948,938</u>
Non-current liabilities			
Lease liabilities		7,353	–
Deferred tax liabilities		43,053	51,794
		<u>50,406</u>	<u>51,794</u>
Net assets		<u>2,914,216</u>	<u>2,897,144</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital		2,185,876	2,185,876
Reserves		594,963	575,829
		<u>2,780,839</u>	<u>2,761,705</u>
Non-controlling interests		<u>133,377</u>	<u>135,439</u>
Total equity		<u>2,914,216</u>	<u>2,897,144</u>

NOTES

For the year ended 31 December 2019

1. CORPORATE INFORMATION AND BASIS OF PREPARATION

The Company is a limited company incorporated in Hong Kong. The address of its registered office and its principal place of business is Suite 6406, 64/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong. The Company is an investment holding company. The Group is principally engaged in investment holdings, finance leasing, bulk commodity trading, property development, property investment and marine recreation services and hotel.

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“**HKFRSs**”), Hong Kong Accounting Standards (“**HKASs**”) and Interpretations (hereinafter collectively referred to as the “**HKFRS**”) and the provisions of the Hong Kong Companies Ordinance (Cap. 622) which concern the preparation of financial statements. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair value.

The consolidated financial statements are presented in Hong Kong Dollar (“**HK\$**”) as the directors consider that HK\$ is the appropriate presentation currency since the Company is incorporated in Hong Kong with its shares listed on The Stock Exchange of Hong Kong Limited.

The financial information relating to the years ended 31 December 2019 and 2018 included in this preliminary announcement of annual results does not constitute the Company’s statutory annual consolidated financial statements for those years but is derived from those consolidated financial statements in accordance with section 436 of the Hong Kong Companies Ordinance.

The Company has delivered the consolidated financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the consolidated financial statements for the year ended 31 December 2019 in due course.

The Company’s auditor has reported on the consolidated financial statements for both years. The auditor’s reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. ADOPTION OF HKFRSs

2.1 Adoption of new and revised HKFRSs

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (“**the new HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”), which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 January 2019:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

Other than as noted below, the adoption of the new HKFRSs has no material impact on the Group’s financial statements.

HKFRS 16 – Leases (“HKFRS 16”)

HKFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces HKAS 17 Leases (“**HKAS 17**”), HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease, HK(SIC) – Int 15 Operating Leases-Incentives and HK(SIC) – Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the statement of financial position as a right-of-use asset and a lease liability, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17.

Details of the nature and effect of the changes in accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2. ADOPTION OF HKFRSs (Continued)

2.1 Adoption of new and revised HKFRSs (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(ii) Lessee accounting

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17.

Right-of-use asset

Right-of-use assets are measured at cost comprising the following:

- the amount of initial measurement of lease liabilities;
- any lease payment made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

The Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

The Group’s leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. The leasehold land and buildings which are held for own use would continue to be accounted for under HKAS 16 and would be carried at depreciated cost. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which are held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

2. ADOPTION OF HKFRSs (Continued)

2.1 Adoption of new and revised HKFRSs (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(ii) Lessee accounting (Continued)

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group’s incremental borrowing rate. Incremental borrowing rate is the rate of interest that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable under residual value guarantees;
- the exercise price of purchase option if it is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease reflecting the lessee exercising an option to terminate the lease.

Lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

There are recognition exemptions for short-term leases. Short-term leases are leases with a lease term of 12 months or less at the commencement date. Payments associated with short-term leases are recognised on a straight-line basis as expenses in profit or loss.

In prior years, rental payable under operating leases were charged to profit or loss on a straight-line basis over the lease term.

2. ADOPTION OF HKFRSs (Continued)

2.1 Adoption of new and revised HKFRSs (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(iii) Lessor accounting

The Group has leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 does not have significant impact on the Group’s financial statements.

(iv) Transitional impact and practical expedients applied

The Group has transitioned to HKFRS 16 in accordance with the modified retrospective approach and, therefore, the information presented for 2018 has not been restated. The right-of-use asset for property lease was measured at the amount equal to the lease liability, adjusted by the amount of any prepayments relating to that lease recognised in the consolidated statement of financial position as at 31 December 2018.

For all these right-of-use assets, the Group has applied HKAS 36 Impairment of Assets at 1 January 2019 to assess if there was any impairment as on that date.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying HKAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate at 1 January 2019.

The following reconciliation explains how the operating lease commitments disclosed applying HKAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application of HKFRS 16 recognised in the consolidated statement of financial position as at 1 January 2019:

	<i>HK\$’000</i>
Operating lease commitment at 31 December 2018	8,685
Less: short-term leases with remaining lease term ended on or before 31 December 2019	<u>(2,979)</u>
Gross lease liabilities at 1 January 2019	5,706
Less: total future interest expenses	<u>(666)</u>
Lease liabilities at 1 January 2019	<u><u>5,040</u></u>
Of which are:	
– Current lease liabilities	1,428
– Non-current lease liabilities	<u>3,612</u>
	<u><u>5,040</u></u>

The lessee’s weighted average incremental borrowing rates applied to the lease liabilities on 1 January 2019 was 7.2%.

2. ADOPTION OF HKFRSs (Continued)

2.1 Adoption of new and revised HKFRSs (Continued)

HKFRS 16 – Leases (“HKFRS 16”) (Continued)

(iv) Transitional impact and practical expedients applied (Continued)

Prepaid lease payment in respect of the land use right in the People’s Republic of China (the “PRC”) is currently reclassified and recognised as right-of-use assets upon application of HKFRS 16 and are included in the same line item as property, plant and equipment as that within which the corresponding assets.

Right-of-use assets related to interests in leasehold land where the interest in the land is held for development as inventories are included in the same line item as property held for development as that within which the corresponding assets.

The following table summarises the impact of the adoption of HKFRS 16 on the Group’s consolidated statement of financial position as at 1 January 2019. The information presented for 2018 has not been restated.

	As at 31 December 2018 <i>HK\$’000</i>	HKFRS 16 Reclassification <i>HK\$’000</i>	HKFRS 16 Contract capitalisation <i>HK\$’000</i>	As at 1 January 2019 <i>HK\$’000</i>
Assets:				
Property, plant and equipment	187,803	41,090	5,040	233,933
Prepaid land lease payments	40,603	(40,603)	–	–
Trade and other receivables	186,706	(487)	–	186,219
Liabilities:				
Lease liabilities	–	–	(5,040)	(5,040)

As allowed by HKFRS 16, the Group has used the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group has therefore applied the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group has also elected the practical expedient for not applying the new accounting model to short-term leases (i.e. lease term of 12 months or less).

2. ADOPTION OF HKFRSs (Continued)

2.2 New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKFRS 3	Definition of a business ¹
Amendments to HKAS 1 and HKAS 8	Definition of material ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²

¹ Effective for annual periods beginning on or after 1 January 2020

² The amendments were originally intended to be effective for periods beginning on or after 1 January 2018. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

3. SEGMENT INFORMATION

The information reported to the executive directors of the Company, who are the chief operating decision makers for the purpose of resources allocation and assessment of performance, is the financial information of the Group as a whole as reported under HKFRSs. The Group's chief operating decision makers have identified the reportable segments of the Group as follows:

- (1) Finance leasing – providing finance leasing services including arranging sale and leaseback transactions
- (2) Bulk commodity trade – trading of coal, steel and non-ferrous metal
- (3) Property development – holding land for property development projects
- (4) Property investment – providing rental services and holding investment properties for appreciation
- (5) Marine recreation services and hotel – providing marine recreation services and hotel

3. SEGMENT INFORMATION (Continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2019

	Finance leasing <i>HK\$'000</i>	Bulk commodity trade <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Marine recreation services and hotel <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover as presented in consolidated income statement	<u>74,465</u>	<u>870,153</u>	<u>131,928</u>	<u>1,974</u>	<u>32,078</u>	<u>1,110,598</u>
Results						
Segment results <i>(note (a))</i>	<u>66,766</u>	<u>3,510</u>	<u>41,815</u>	<u>1,700</u>	<u>(13,042)</u>	100,749
Fair value loss on investment properties <i>(note (b))</i>						(5,051)
Unallocated finance costs						(3,209)
Unallocated corporate expenses						(52,797)
Unallocated corporate income						<u>50,317</u>
Profit before income tax						<u>90,009</u>

	Finance leasing <i>HK\$'000</i>	Bulk commodity trade <i>HK\$'000</i>	Property development <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Marine recreation services and hotel <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>

Notes:

(a) Amounts included in the
measure of segment results

Interest income from deposits and other financial assets	2,711	592	1,348	-	85	48,016	52,752
Depreciation	(124)	(1,206)	(37)	-	(14,486)	(3,778)	(19,631)
Finance costs	(2,407)	(94)	-	-	(297)	(3,209)	(6,007)
(Loss)/gain on disposal of property, plant and equipment	-	(19)	-	-	692	11	684

(b) Amounts regularly provided to
the chief operating decision
maker for the analysis of the
segment's performance

Fair value loss on investment properties	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,051)</u>	<u>-</u>	<u>-</u>	<u>(5,051)</u>
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3. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2018

	Finance leasing HK\$'000	Bulk commodity trade HK\$'000	Property development HK\$'000	Property investment HK\$'000	Marine recreation services and hotel HK\$'000	Total HK\$'000
Turnover as presented in consolidated income statement	<u>53,264</u>	<u>865,237</u>	<u>60,993</u>	<u>2,638</u>	<u>38,760</u>	<u>1,020,892</u>
Results						
Segment results (note (a))	<u>44,136</u>	<u>4,339</u>	<u>20,477</u>	<u>2,293</u>	<u>(4,108)</u>	67,137
Fair value gain on investment properties (note (b))						3,535
Gain on disposal of a subsidiary						110,799
Unallocated finance costs						(4,333)
Unallocated corporate expenses						(52,153)
Unallocated corporate income						<u>43,929</u>
Profit before income tax						<u>168,914</u>

	Finance leasing HK\$'000	Bulk commodity trade HK\$'000	Property development HK\$'000	Property investment HK\$'000	Marine recreation services and hotel HK\$'000	Unallocated HK\$'000	Total HK\$'000
Interest income from deposits and other financial assets	2,952	320	2,365	-	1,304	38,897	45,838
Depreciation	(150)	(26)	(80)	-	(10,283)	(4,196)	(14,735)
Finance costs	(2,120)	(52)	-	-	-	(4,333)	(6,505)
Gain/(loss) on disposal of property, plant and equipment	-	1	-	-	(276)	-	(275)

Notes:

(a) Amounts included in the
measure of segment results

Interest income from deposits and other financial assets	2,952	320	2,365	-	1,304	38,897	45,838
Depreciation	(150)	(26)	(80)	-	(10,283)	(4,196)	(14,735)
Finance costs	(2,120)	(52)	-	-	-	(4,333)	(6,505)
Gain/(loss) on disposal of property, plant and equipment	-	1	-	-	(276)	-	(275)

(b) Amounts regularly provided to
the chief operating decision
maker for the analysis of the
segment's performance

Fair value gain on investment properties	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,535</u>	<u>-</u>	<u>-</u>	<u>3,535</u>
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4. TURNOVER AND OTHER INCOME

(a) Turnover

Set out below is the disaggregation of the Group's turnover from major products and services:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Sales of properties	131,928	60,993
Consultancy service income from finance lease arrangements	23,559	8,925
Bulk commodity trade	870,153	865,237
Marine recreation services and hotel	<u>32,078</u>	<u>38,760</u>
Revenue from contract with customers	1,057,718	973,915
Rental income	1,974	2,638
Interest income from finance leasing arrangements	<u>50,906</u>	<u>44,339</u>
	<u><u>1,110,598</u></u>	<u><u>1,020,892</u></u>

(b) Other income

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Interest income from:		
– deposits and other financial assets	52,752	45,838
– a related party	1,151	–
– a non-controlling shareholder of a subsidiary	–	196
Fair value gain on other financial assets		
measured at profit or loss	858	4,005
Government subsidies	153	4,508
Reversal of other payables	–	326
Exchange gain, net	–	104
Gain on disposal of property, plant and equipment	684	–
Reversal of impairment loss on financial assets	46	–
Others	<u>3,362</u>	<u>3,602</u>
	<u><u>59,006</u></u>	<u><u>58,579</u></u>

5. INCOME TAX EXPENSE

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profits arising in Hong Kong for both years.

Under the Law of the PRC on Enterprise Income Tax (“EIT”) and Implementation Regulation, the PRC subsidiaries are subject to tax rate of 25%. The current tax also comprised land appreciation tax (“LAT”) which is estimated in accordance with the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates of the appreciation value, with certain allowable deductions.

	2019 HK\$'000	2018 <i>HK\$'000</i>
The taxation charge comprises:		
Current tax for the year:		
Hong Kong Profits Tax	–	–
PRC EIT	32,044	45,339
PRC LAT	11,576	4,719
	43,620	50,058
Under-provision in prior years:		
PRC EIT	421	–
	44,041	50,058
Deferred tax	1,868	7,441
Income tax expense	45,909	57,499

6. PROFIT FOR THE YEAR

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit for the year is arrived at after charging/(crediting):		
Auditor's remuneration		
– audit services	1,070	1,070
– non-audit services	510	180
	<u>1,580</u>	<u>1,250</u>
Amortisation of prepaid land lease payments (<i>note</i>)	–	5,471
Depreciation of property, plant and equipment (<i>note</i>)	19,639	14,747
Less: Amounts capitalised on properties under development	<u>(8)</u>	<u>(12)</u>
	<u>19,631</u>	<u>14,735</u>
Minimum lease payments in respect of rented premises classified as operating leases under HKAS 17 (<i>note</i>)	–	4,946
Contributions to retirement benefits schemes (including directors' emoluments)	9,423	10,740
Staff costs (including directors' emoluments)	<u>49,635</u>	<u>52,055</u>
Total staff costs	59,058	62,795
Less: Amounts capitalised on properties under development	<u>(2,204)</u>	<u>(2,141)</u>
	<u>56,854</u>	<u>60,654</u>
Cost of inventories recognised as expenses	955,101	881,467
Exchange loss/(gain), net	11,214	(104)
(Gain)/loss on disposal of property, plant and equipment	(684)	275
(Reversal of impairment)/impairment on financial assets	(46)	55
Written off of property, plant and equipment	–	303
Direct operating expenses arising from investment properties	<u>274</u>	<u>345</u>

Note:

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. The amortised carrying amount of the prepaid land lease payments is also identified as a right-of-use asset and grouped under property, plant and equipment at 1 January 2019. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated.

7. DIVIDENDS

No dividend in respect of the years ended 31 December 2019 and 2018 was proposed during the years ended 31 December 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the earnings for the year attributable to owners of the Company of HK\$47,539,000 (2018: HK\$113,440,000) and on the weighted average number of 5,796,985,000 (2018: 5,796,985,000) ordinary shares in issue during the year excluding ordinary shares purchased by the Company for share award scheme.

There were no potential dilutive ordinary shares outstanding during both years and hence the diluted earnings per share is the same as basic earnings per share.

9. TRADE AND OTHER RECEIVABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade and bills receivables (<i>note a</i>)	710	8,475
Prepayments to suppliers	84,746	111,353
Other prepayments and deposits	16,673	43,747
Other receivables (<i>note b</i>)	<u>33,925</u>	<u>23,131</u>
Total trade and other receivables	<u><u>136,054</u></u>	<u><u>186,706</u></u>

Notes:

- (a) As at 31 December 2019, trade receivables mainly arose from marine recreation services and hotel business and 30 days credit period was granted to customers (2018: arose from bulk commodity trading and no credit period for trade receivables and 1 year credit period from the date of issuance for bills receivables).

The Group normally grants credit terms to its customers according to industry practice together with consideration of their creditability and repayment history. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

The following is an ageing analysis of trade and bills receivables presented based on the invoice date at the end of the reporting period.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within 90 days	710	378
91–180 days	<u>–</u>	<u>8,097</u>
	<u><u>710</u></u>	<u><u>8,475</u></u>

- (b) As at 31 December 2019, loss allowance of HK\$176,000 (2018: HK\$177,000) were made against the gross amount of other receivables.

10. LOANS RECEIVABLE

As at 31 December 2019, the Group had 20 (2018: 11) sale and leaseback agreements pursuant to which the customers (the “lessees”) sold their equipment and facilities to the Group and leased back the equipment and facilities with the lease period ranged from 1 to 6 years (2018: 1 to 3 years) from the date of inception. In addition, the ownership of leased assets will be transferred to the lessees at a purchase option which is ranged from RMB1 to RMB5,000 (2018: RMB1) upon the settlement of the principal amounts of loans receivable and the interest accrued under the sale and leaseback arrangements. The lessees retain control of the equipment and facilities before and after entering into the sale and leaseback arrangements which do not therefore constitute a lease for accounting purposes. Rather, the arrangements have been accounted for as a secured loan in accordance with HKFRS 9 Financial Instruments.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Analysed for reporting purposes as:		
Current assets	442,135	421,236
Non-current assets	<u>684,689</u>	<u>245,700</u>
	<u>1,126,824</u>	<u>666,936</u>

As at 31 December 2019, effective interest rates for the loans receivable ranged from approximately 4.90% to 8.99% (2018: 5.22% to 8.12%) per annum.

The loans receivable under the sale and leaseback arrangements are secured by the leased equipment and facilities (2018: the land and buildings and leased equipment and facilities), of which HK\$901,053,000 (2018: HK\$626,445,000), are guaranteed by the controlling shareholders or related parties of the lessees. The Group is not permitted to sell or re-pledge the collateral in absence of default by the lessees. The lessees are obliged to settle the amounts according to the terms set out in the relevant contracts.

Also, the loans receivable under certain sale and leaseback arrangements are secured by customers' deposits of HK\$80,784,000 (2018: HK\$14,820,000).

As at 31 December 2019 and 2018, the fair value of loans receivable approximates to its carrying amount.

The ageing analysis of loans receivable at the end of reporting period is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Not yet past due	1,119,054	666,936
Past due but not credit impaired		
Within 3 months	<u>7,770</u>	<u>–</u>
	<u>1,126,824</u>	<u>666,936</u>

As at 31 December 2019, loss allowance of HK\$74,000 (2018: HK\$121,000) was made against the gross amount of loans receivable.

11. OTHER FINANCIAL ASSETS

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Non-current:			
Financial assets measured at fair value through other comprehensive income (“FVOCI”) (non-recycling)			
– Equity investments		<u>4,267</u>	<u>4,984</u>
Current:			
Financial assets measured at FVOCI (non-recycling)			
Equity investments			
– Shares listed in Hong Kong		134,620	104,140
Financial assets measured at fair value through profit or loss			
– Shares listed in Hong Kong		1,040	1,125
– Unlisted investments	<i>(a)</i>	204,139	421,847
Financial assets at amortised cost			
– Unlisted debt investments with interest ranging from 4.0% to 7.0% per annum		–	74,100
– Structured bank deposits with interest ranging from 3.5% to 3.9% (2018: 2.9% to 4.5%) per annum		<u>205,017</u>	<u>239,400</u>
		<u>544,816</u>	<u>840,612</u>

Note:

- (a) The balances represented the trust products and wealth management products managed by PRC banks and financial institutions which invested in underlying assets without open or active quotations.

12. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 23 December 2019, the Company passed an ordinary resolution in the extraordinary general meeting to approve the disposal of 41% of the equity interest of Chengtong Energy Guangdong Company Limited (“**Chengtong Energy**”). The details of which have been set out in the circular of the Company dated 6 December 2019.

Chengtong Energy is the Company’s non-wholly owned subsidiary and is principally engaged in coal trading under the reportable segment of bulk commodity trading. As at 31 December 2019, the assets and liabilities attributable to Chengtong Energy, which are expected to be sold within twelve months from the reporting date, have been classified as assets classified as held for sale and liabilities associated with assets classified as held for sale and are presented separately in the consolidated statement of financial position.

The purchaser of this transaction is a non-wholly owned subsidiary of China Chengtong Holdings Group Limited, the ultimate holding company of the Company.

	2019
	HK\$’000
Assets classified as held for sale:	
Property, plant and equipment	1,326
Trade and other receivables	19,992
Bank balances and cash	<u>57,317</u>
	<u>78,635</u>
Liabilities associated with assets classified as held for sale:	
Trade and other payables	8,876
Contract liabilities	10,310
Lease liabilities	847
Taxation payable	<u>16</u>
	<u>20,049</u>

13. TRADE AND OTHER PAYABLES

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Trade payables (<i>note (a)</i>)	14,153	13,030
Other payables and accruals	40,560	52,516
Deposits received (<i>note (b)</i>)	80,784	14,820
Accrual of construction costs	<u>38,151</u>	<u>40,360</u>
	<u>173,648</u>	<u>120,726</u>

Notes:

- (a) The ageing analysis of the trade payables presented based on the invoice date at the end of the reporting period is as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Within one year	11,306	10,105
Over one year but less than two years	–	–
Over two years but less than three years	<u>2,847</u>	<u>2,925</u>
	<u>14,153</u>	<u>13,030</u>

- (b) As at 31 December 2019 and 2018, deposits received mainly arose from sale and leaseback arrangements as security deposits. The deposits will be returned to the customers upon the settlement of the receivables and the interest accrued under the sale and leaseback arrangements.

14. CONTRACT LIABILITIES

The Group has recognised the following revenue-related contract liabilities:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Contract liabilities related to property sales	123,832	163,266
Contract liabilities related to bulk commodity trade	<u>10,805</u>	<u>43,830</u>
	<u>134,637</u>	<u>207,096</u>

15. CONTINGENT LIABILITIES

- (a) As at 31 December 2019, the Group had contingent liabilities in relation to guarantees of approximately HK\$207,145,000 (2018: HK\$211,918,000) given to banks in respect of mortgage loans granted to purchasers of certain property units.

Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible to repay the outstanding mortgage principals together with any accrued interest and penalty owed by the defaulted purchasers to the banks, and the Group is entitled to take over the legal title and possession of the related properties.

- (b) In March 2016, the Group entered into a guarantee agreement with China Chengtong Coal Investment Limited, a subsidiary of the ultimate holding company of the Company, for a period of three years. The aforesaid guarantee provided by the Group has been discharged during the year ended 31 December 2019.

Pursuant to the guarantee agreement, the Group has provided a guarantee by pledging its office premises with net book value of approximately HK\$45,367,000 as at 31 December 2018 and issuing a guarantee letter to the Supreme People's Court of Guangxi Zhuang Autonomous Region to the extent of RMB53,540,000 (approximately HK\$61,036,000). The Group also entered into a deed of counter-indemnity with China Chengtong Hong Kong Company Limited ("CCHK"), an intermediate holding company of the Company, pursuant to which CCHK agreed to indemnify the Group in full for its liabilities and loss, if any, which may arise from the above guarantee provided by the Group.

In the opinion of the directors of the Company, the financial impact arising from providing the above financial guarantees is insignificant and accordingly, they were not accounted for in these financial statements.

As at 31 December 2019 and 2018, the Group was not involved in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the directors of the Company to be pending or threatened against the Group.

16. CAPITAL COMMITMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Contracted but not provided for:		
Purchase of property, plant and equipment	<u>250</u>	<u>21,601</u>

MANAGEMENT DISCUSSION AND ANALYSIS

I. RESULTS AND DIVIDEND

The Group has confirmed that expanding the business scale of finance leasing business and the speed up the exit from the existing property development projects will be our future business development strategies. These strategies began to show effects on the results of the year. For the year ended 31 December 2019, the Group recorded a turnover of approximately HK\$1,110.60 million (2018: approximately HK\$1,020.89 million), representing a year-on-year increase of approximately 9%. The increase in turnover was mainly due to: (i) the substantial increase in turnover from property development by approximately 116% from last year to approximately HK\$131.93 million (2018: approximately HK\$60.99 million); and (ii) the year-on-year increase in revenue from finance leasing business by approximately 40% to approximately HK\$74.47 million (2018: approximately HK\$53.26 million).

For the year ended 31 December 2019, the Group recorded consolidated profit before income tax of approximately HK\$90.01 million (2018: approximately HK\$168.91 million), representing a year-on-year decrease of approximately 47%. In 2018, the Group completed the transfer of interest in Cuidao Hotspring Hotel, resulting in the recognition of a non-recurring gain of approximately HK\$110.80 million. Excluding the said non-recurring income, the profit before income tax for the year ended 31 December 2019 increased year-on-year by approximately 55% to approximately HK\$90.01 million (2018: approximately HK\$58.12 million), mainly due to the year-on-year increase in turnover from property development business and revenue from finance leasing business by approximately 116% and approximately 40% respectively. As a result, the consolidated gross profit increased year-on-year by approximately 42% to approximately HK\$154.66 million (2018: approximately HK\$108.90 million). However, as the selling expenses increased year-on-year by approximately 46% to approximately HK\$20.52 million (2018: approximately HK\$14.06 million); and the fair value of investment properties changed from a gain of approximately HK\$3.54 million as at 31 December 2018 to a loss of approximately HK\$5.05 million as at 31 December 2019, which partially offset the positive effect on profit derived from the increase in consolidated gross profit over last year.

The profit attributable to owners of the Company for the year amounted to approximately HK\$47.54 million (2018: approximately HK\$113.44 million), representing a year-on-year decrease of approximately 58%.

The Board did not recommend the declaration of any final dividend for the year ended 31 December 2019 (2018: nil).

II. BUSINESS REVIEW

Segment Revenue and Results

The revenue of the Group was mainly derived from the five business segments in the PRC, including finance leasing, bulk commodity trade, property development, property investment and marine recreation services and hotel. The details of segment revenue and results are as follows:

(1) Finance Leasing

During the year under review, through own development and acquisition of new projects, the Group's loans receivables from new finance leasing during the year increased substantially. As at 31 December 2019, the loans receivables from finance leasing amounted to HK\$1,126.82 million, representing an increase of approximately 69% from such receivables of approximately HK\$666.94 million as at 31 December 2018. Coupled with the completion of a number of finance consultancy projects during the year, the turnover from finance leasing business increased by approximately 40% year-on-year to approximately HK\$74.47 million (2018: approximately HK\$53.26 million). The profit before tax was approximately HK\$66.77 million (2018: approximately HK\$44.14 million), representing a year-on-year increase of approximately 51%, which was mainly due to the year-on-year increase in turnover of approximately HK\$21.20 million, which was primarily benefiting from the revenue from finance consultancy service of approximately HK\$23.56 million (2018: approximately HK\$8.93 million) for the year, representing a year-on-year increase of approximately 164%; and the year-on-year increase in interest income from finance leasing arrangements by approximately HK\$6.57 million to approximately HK\$50.91 million (2018: approximately HK\$44.34 million).

(2) Bulk Commodity Trade

During the year under review, the turnover from bulk commodity trade business segment was approximately HK\$870.15 million (2018: approximately HK\$865.24 million), which was similar to that of last year. Segment profit before tax was approximately HK\$3.51 million (2018: approximately HK\$4.34 million), representing a year-on-year decrease of approximately 19%. The details of the trading of coal and steel under bulk commodity trade operated by the Group are as follows:

(i) Trading of Coal

In 2019, the demand for coal remained sluggish due to the economic downturn despite the increase in domestic supply of coal. As a result, the coal price was under gradual pressure. During the year under review, the sales volume of coal

trading was approximately 0.71 million tons (2018: approximately 0.86 million tons), representing a year-on-year decrease of approximately 17%. Turnover was approximately HK\$467.82 million (2018: approximately HK\$614.72 million), representing a year-on-year decrease of approximately 24%. The average unit selling price decreased by approximately 3% from approximately RMB600 per ton last year to approximately RMB580 per ton during the year. As a result, the gross profit decreased by approximately 76% year-on-year to approximately HK\$1.43 million (2018: approximately HK\$5.92 million). There was a turnaround from profit before tax of approximately HK\$1.75 million last year to loss before tax of approximately HK\$2.67 million. The Group has entered into an agreement with China Chengtong International Co. Ltd. for the disposal of controlling equity interest in Chengtong Energy Guangdong Company Limited and gradually exited from the domestic trading of coal business.

(ii) Trading of Steel

In 2019, driven by the growth of property development and investment in the PRC, the demand for steel grew substantially. The sales volume of steel experienced significant growth. During the year under review, the sales volume of steel trading was approximately 111,602 tons (2018: approximately 60,745 tons), representing a year-on-year increase of approximately 84%. The turnover amounted to approximately HK\$402.33 million (2018: approximately HK\$250.52 million), representing a year-on-year increase of approximately 61%. Despite the average unit selling price of steel decreased by approximately 7% from approximately RMB3,404 per ton last year to approximately RMB3,190 per ton, since the sales volume increased from last year, the gross profit increased by approximately 193% year-on-year to approximately HK\$14.09 million (2018: approximately HK\$4.81 million). The selling expenses increased by approximately HK\$5.73 million year-on-year to approximately HK\$7.95 million (2018: approximately HK\$2.22 million). The profit before tax was approximately HK\$6.18 million (2018: approximately HK\$2.59 million), representing a year-on-year increase of approximately 139%.

(3) *Property Development*

During the year under review, the Group had two property development projects, namely, the CCT-Champs-Elysees and “Chengtong International City” located in Zhucheng City of Shandong Province and in Dafeng City of Jiangsu Province of the PRC respectively. The turnover for the Group’s property development segment was approximately HK\$131.93 million (2018: approximately HK\$60.99 million), representing a substantial year-on-year increase of approximately 116%, and the segment profit before tax increased year-on-year by approximately 104% to approximately HK\$41.82 million (2018: approximately 20.48 million). Details of the two aforementioned projects are as follows:

(i) Zhucheng City of Shandong Province – CCT-Champs-Elysees

The CCT-Champs-Elysees project, which is wholly owned by the Group, is located at the northern side of Eastern Section of No. 1 Mizhou West Road, Zhucheng City, Shandong Province, the PRC (Lot No. 01213003). The project has a total site area of approximately 146,006 square metres and was developed in three phases. The project is located in a county level city. During the year under review, the Group strengthened the development and marketing of the CCT-Champs-Elysees project, resulting in a substantial increase in sales revenue of the project. During the year, the residential area sold for the project was approximately 20,329 square metres (2018: approximately 8,928 square metres), representing a year-on-year increase of approximately 128%. The average unit selling price per square metre for residential apartments of the project was approximately RMB5,866, which was in line with the average unit selling price per square metre for residential apartments of the project of approximately RMB5,833 last year. Mainly because of the substantial increase of areas sold as compared to that of last year, the sales revenue from the project was approximately HK\$131.93 million (2018: approximately HK\$60.61 million), representing a year-on-year increase of approximately 118%. The profit before tax amounted to approximately HK\$44.38 million (2018: approximately HK\$23.38 million), representing a year-on-year increase of approximately 90%.

As at 31 December 2019, the completed and unsold area of the CCT-Champs-Elysees project included residential area of approximately 10,483 square metres (as at 31 December 2018: approximately 29,392 square metres) and commercial spaces of approximately 1,410 square metres (as at 31 December 2018: approximately 1,410 square metres) (excluding the leasable area of approximately 7,565 square metres (as at 31 December 2018: approximately 7,565 square metres)).

The Group will strengthen the development and marketing of the CCT-Champs-Elysees project according to the plan. It is expected that the entire project will be completed and delivered in 2023.

(ii) Dafeng City of Jiangsu Province – Chengtong International City

The Group holds 66.67% equity interest in “Chengtong International City”, which is located at North Portion of Lot No. 2, Port Serviced Area, Dafeng Ocean Economic Development Area, Dafeng City, Jiangsu Province, the PRC. The total site area is approximately 118,974 square metres. Dafeng City is a third/fourth-tier city of the PRC. Given that the project is situated far from major cities and the real estate market in the region remains stagnant, no sales revenue (2018: approximately HK\$380,000) was recorded for the project for the year under review. The loss before tax amounted to approximately HK\$2.56 million (2018: loss before tax of approximately HK\$2.91 million), representing a year-on-year decrease of approximately 12%.

As at 31 December 2019, the completed and unsold area of Chengtong International City project included residential area of approximately 10,930 square metres (as at 31 December 2018: approximately 10,930 square metres) and commercial spaces of approximately 9,540 square metres (as at 31 December 2018: approximately 9,540 square metres).

Land Resources Development

誠通大豐海港開發有限公司(unofficial English translation being Chengtong Dafeng Harbour Development Limited) (“**Dafeng Development**”), a subsidiary owned as to 66.67% by the Company, holds a parcel of industrial land situated in the south of Shugang Highway, Dafeng City, Jiangsu Province, the PRC and three parcels of residential and commercial land situated at lot number 1 to 3 in the Port Serviced Area, Ocean Economic Development Zone, Dafeng City, Jiangsu Province.

It remains the Group’s plan to withdraw from land development in Dafeng City, Jiangsu Province. On 3 July 2014, the Group entered into two resumption agreements with Dafeng Land Reserve Center and Management Committee of the Jiangsu Dafeng Harbour Economic Development Zone (“**Dafeng Harbour Committee**”) and two compensation agreements with the Dafeng Harbour Committee and 江蘇大豐海港控股集團有限公司(unofficial English translation being Jiangsu Dafeng Harbour Holdings Group Limited). Details of the relevant agreements related to the resumption of land were set out in the Company’s announcement dated 3 July 2014. However, the relevant land has not been resumed as of 31 December 2019 and the date of this announcement. The Group is actively stepping up the reorganisation of Dafeng project.

(4) *Property Investment*

The rental income from property investment of the Group was generated from the commercial properties of the CCT-Champs-Elysees project in Zhucheng City, Shandong Province, the PRC. The leasable area of the property was approximately 7,565 square metres. The actual leased area as at 31 December 2019 was approximately 6,680 square metres (as at 31 December 2018: approximately 6,680 square metres), which was in line with last year. The rental of new leases during the year decreased as compared to the original leases, resulting in a decrease in rental income by approximately 25% year-on-year to approximately HK\$1.97 million (2018: approximately HK\$2.64 million). The profit before tax amounted to approximately HK\$1.70 million (2018: approximately HK\$2.29 million), representing a year-on-year decrease of approximately 26%.

(5) *Marine Recreation Services and Hotel*

The marine recreation services and hotel in Hainan Province, the PRC mainly consist of: (i) marine travelling business; (ii) hotel operation; and (iii) travelling agency business. The turnover and results of these businesses are set out below:

(i) *Marine Travelling Business*

As a result of the negative impacts caused by factors including the implementation of the property purchase restriction policies in Hainan and diversion of tourists to other cities and counties in Hainan and the emergence of new tourist areas in Sanya, the number of tourists travelling to Yalong Bay, Sanya decreased substantially throughout the year. As a result, the turnover from marine travelling business decreased by approximately 19% from approximately HK\$36.30 million last year to approximately HK\$29.32 million. Due to the decrease in turnover, the gross profit decreased by approximately 31% from approximately HK\$19.02 million last year to approximately HK\$13.05 million. Accordingly, the loss before tax of approximately HK\$3.92 million was recorded in the year under review, as compared to the profit before tax of approximately HK\$2.27 million recorded last year.

(ii) *Hotel Operation*

Since the completion of renovation and trial operation in August 2019, the revenue from hotel room sales amounted to approximately HK\$1.57 million (2018: approximately HK\$1.56 million), which was in line with last year. The loss before tax was approximately HK\$9.04 million (2018: loss before tax of approximately HK\$6.86 million), representing a year-on-year increase of approximately 32%, which was mainly due to the fact that the number of tourists did not increase for the time being and the significant increase in labour costs and depreciation.

(iii) Travelling Agency Business

During the year under review, the turnover of the travelling agency business was approximately HK\$1.19 million (2018: approximately HK\$0.90 million), representing a year-on-year increase of approximately 32%. The loss before tax for the year was approximately HK\$0.08 million, as compared to the profit before tax of approximately HK\$0.48 million last year. The turnaround was mainly due to the year-on-year decrease in interest and other income by approximately HK\$1.18 million to approximately HK\$0.13 million, which offset the positive impact of the increase in turnover on results which increased the gross profit year-on-year by approximately HK\$0.28 million to approximately HK\$0.44 million and the year-on-year decrease in administrative expenses by approximately HK\$0.34 million to approximately HK\$0.63 million.

The above three businesses contributed a total segment turnover of approximately HK\$32.08 million (2018: approximately HK\$38.76 million) to the Group, representing a year-on-year decrease of approximately 17%. The segment loss before tax amounted to approximately HK\$13.04 million (2018: loss before tax of approximately HK\$4.11 million), representing a year-on-year increase of approximately HK\$8.93 million.

Other Income

Other income amounted to approximately HK\$59.01 million (2018: approximately HK\$58.58 million) in aggregate, which was in line with last year. It mainly included the interest income from deposits and other financial assets of approximately HK\$52.75 million (2018: approximately HK\$45.84 million).

Selling and administrative expenses

During the year under review, the selling expenses amounted to approximately HK\$20.52 million (2018: approximately HK\$14.06 million), representing a year-on-year increase of approximately 46%, which was mainly due to the year-on-year increase in the turnover from steel trading under bulk commodity trade of approximately 61%. As a result, the storage fee and freight expenses increased by approximately HK\$5.89 million year-on-year. The administrative expenses amounted to approximately HK\$92.08 million, which was in line with last year (2018: approximately HK\$92.34 million).

Finance Costs

During the year under review, the finance costs mainly composed of the interest on bank borrowings. The interest on bank borrowings was approximately HK\$10.09 million (2018: approximately HK\$9.04 million), representing a year-on-year increase of approximately 12%, which was mainly due to the fact that the bank borrowings as at 31 December 2019 increased by approximately HK\$3.60 million from that as at 31 December 2018 and the effective borrowing rate per annum increased as compared with last year. After deducting the finance costs of approximately HK\$4.52 million (2018: approximately HK\$2.53 million) which were capitalised during the year under review and recognising the interests on lease liabilities of approximately HK\$0.44 million (2018: nil), the net finance costs were approximately HK\$6.01 million (2018: approximately HK\$6.51 million), representing a year-on-year decrease of approximately 8%.

III. DISPOSAL OF SUBSIDIARY AND FORMATION OF JOINT VENTURE

During the year under review, the Group had the following material disposal of subsidiary and formation of a joint venture:

- (1) On 25 October 2019, the Group entered into an investment agreement with the Company's connected person, Chengtong International Limited ("**Chengtong International**"), pursuant to which a joint venture is formed. The joint venture is owned as to 51% by the Group and 49% by Chengtong International. Through the formation of the joint venture, the Group can leverage on the operational expertise of the shareholder of Chengtong International, and benefit from its international procurement and sales network as well as its established customer base. These will facilitate the continuous development of the international bulk commodity trade businesses of the Group abroad. For further details, please refer to the announcement of the Company dated 25 October 2019.
- (2) On 12 November 2019, the Group entered into an equity transfer agreement with the Company's connected person, China Chengtong International Co. Ltd. ("**China Chengtong International**"), pursuant to which China Chengtong International conditionally agreed to acquire 41% of the equity interest of Chengtong Energy Guangdong Company Limited ("**Chengtong Energy**") at the consideration of approximately HK\$27.38 million. Upon completion of the equity transfer, the Group will only retain 10% equity interest in Chengtong Energy and Chengtong Energy will cease to be a subsidiary of the Company. The Group will gradually exit from its business of coal trading in the PRC through the disposal of Chengtong Energy. For further details, please refer to the announcement of the Company dated 12 November 2019 and the circular of the Company dated 6 December 2019. As at the date of this announcement, the equity transfer is still pending the completion of the registration formalities at the relevant PRC registration authority and therefore, completion of the equity transfer has not yet taken place.

Save as disclosed in the above, during the year under review, the Group did not have any other material acquisition or disposal of subsidiaries, associates or joint ventures.

IV. OUTLOOK

Since the outbreak of the novel coronavirus pneumonia epidemic at the beginning of the year, the Group has taken a proactive approach and adopted various anti-epidemic measures to protect the safety and health of employees as top priority. At the same time, the postponed resumption of production and related epidemic control have adversely affected the Group's business. The Group is taking proactive measures and making active responses in an effort to minimise the losses caused by the epidemic.

From an international perspective, the prevailing global economy will continue to slow down and remain in profound adjustment period after the international financial crisis. The global economy is characterised by “three lows and two highs” namely low growth, low inflation, low interest rates, high debt, and high risk. Initiatives such as co-building the “Belt and Road” have provided a broad arena for the internationalised operation of enterprises in China. From a domestic perspective, China is going through a critical period of changing model of development, optimisation of economic structure and changing growth drivers. Although recently the novel coronavirus pneumonia epidemic has brought certain pressure to bear on the economic development, as the prevention and control measures strengthen and the enterprises resume production, the general trend of steady, positive growth long-term improvement of the economy in China should be able to sustain.

Looking forward, as China and the United States of America enters into the first stage trade deal, the economic and trade relations have eased to a certain extent, thus stabilising the international macroeconomic conditions. However, the global economy continues to face uncertainties such as geopolitical conflicts, escalated trade frictions and etc. In the short term, China's economy will still be under downward pressures, and China will further the supply-side structural reform to drive the economy to its high quality betterment. In the medium-long term, the strong domestic market demands will provide enormous development potentials for corporate transformation and development and structural adjustment.

The Group will closely monitor the complex and changing business landscape where both opportunities and challenges exist, while seizing market opportunities and striving to make innovation, with a view to maximising the values for the shareholders.

In respect of finance leasing, the Group will increase the business synergy between its controlling shareholder and other central enterprises and accelerate the introduction of market-oriented professional teams. Adhering to the management philosophy of “serving the strategy, generating synergies, strictly managing risks and creating niche features”, the Group will step up its efforts to expand into areas including central enterprises and overseas leasing, and expand the business scale with focus on stringent risk management to provide customers with professional comprehensive finance leasing solutions. Leverage on its synergies with the Company's controlling shareholder, the Group strives to build its brand and industry influence. With respect to bulk commodity trading, under strict

risk management, the Group will continue to cautiously carry out bulk commodity trading related business. In relation to property development and property investment, the Group's overall strategy is to gradually withdraw from the existing property development project business and integrate the resources by strengthening the development and marketing of Zhucheng project and expediting the restructuring of Dafeng project. Regarding marine recreation services and hotel, on one hand, the Group will strengthen its marketing efforts on existing marine recreation services and hotel businesses, and on the other hand, make use of the strategic opportunities brought by the establishment of free trade zone (port) to set foot in Hainan, thus further expanding new travelling resources.

At present, the Group has gradually defined the development strategy, development goals and implementation approaches. In the future, it will further gather resources to push ahead the expansion of the business scale of finance leasing. The Board has full confidence in the future development of the Group.

V. ASSET STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group continues to maintain a sound financial position. As at 31 December 2019, equity attributable to owners of the Company amounted to approximately HK\$2,780.84 million (as at 31 December 2018: approximately HK\$2,761.71 million), representing an increase of approximately 1% as compared with the equity attributable to owners of the Company as at 31 December 2018.

As at 31 December 2019, the total assets of the Group amounted to approximately HK\$3,600.66 million, representing an increase of approximately 0.3% as compared to the total assets as at 31 December 2018. The amount of total current assets of the Group was approximately HK\$2,575.93 million, accounting for approximately 72% of the total assets and representing a decrease by approximately 14% as compared to the total current assets as at 31 December 2018, which was mainly due to the Group's utilisation of part of the cash and deposits and the increase in loans receivable of approximately HK\$438.99 million from non-current finance leasing business during the year under review. The total non-current assets of the Group amounted to approximately HK\$1,024.73 million, accounting for approximately 28% of the total assets and representing an increase by approximately 77% as compared to the total non-current assets as at 31 December 2018, which was mainly due to the increase in loans receivable from finance leasing business.

As at 31 December 2019, total liabilities of the Group amounted to approximately HK\$686.45 million, representing a decrease of approximately 1% as compared with that as at the same date of last year. The total non-current liabilities of the Group amounted to approximately HK\$50.41 million and accounted for approximately 7% of the total liabilities and represented a decrease of approximately 3% as compared with that as at the same date of last year. The total current liabilities of the Group amounted to approximately HK\$636.04 million and accounted for approximately 93% of the total liabilities, representing a decrease of approximately 1% as compared with that as at the same date of last year. The current ratio (calculated as total current assets over total current liabilities) was approximately 4.0 times, representing a decrease of approximately 0.7 time as compared to the current ratio of approximately 4.7 times as at 31 December 2018. The liquidity of the assets of the Group remained sound.

As at 31 December 2019, the Group had cash and deposits (including pledged bank deposits, deposits in other financial institution and bank balances and cash) of approximately HK\$738.98 million, accounting for approximately 21% and approximately 25% of the total assets and the net assets respectively, and representing a decrease of approximately HK\$168.44 million as compared with that as at the same date of last year, which was mainly due to the Group's utilisation of cash and deposits and the increase in loans receivable from non-current finance leasing business. As at 31 December 2019, the bank borrowings of the Group amounted to approximately HK\$277.70 million, representing an increase of approximately HK\$3.60 million as compared with the bank borrowings as at 31 December 2018 of approximately HK\$274.10 million. Bank borrowings of approximately HK\$77.70 million was of one-year term and the remaining balance of HK\$200 million was a revolving loan with the final repayment date to be due in the year of 2020. The effective interest rates of the bank borrowings ranged from approximately 3.04% to approximately 5.66% per annum. It is expected that the Group will have sufficient financial resources to cope with the commitments and liabilities for the coming year.

VI. SIGNIFICANT INVESTMENTS

Details of the significant investments in the portfolio under other financial assets as at 31 December 2019 are as follows:

Description of investment	Approximate interest rate per annum	Approximate investment amount as at 31 December 2019	Fair value as at 31 December 2019 (HK\$'000)	Approximate percentage to the Group's audited total assets as at 31 December 2019	Changes in fair value during the year 2019 (HK\$'000)
Honghua Group Limited (Stock code: 196) (Note 1)	N/A	HK\$195,580,000	134,620	3.7%	30,480 (Note 2)
Unlisted trust schemes and wealth management products managed by PRC banks	5.0%-9.5%	RMB183,075,000	204,139	5.7% (Note 4)	942 (Note 3)
Interest bearing structured bank deposits with PRC banks	3.5%-3.9%	RMB184,700,000	205,017	5.7% (Note 5)	-

Note 1: The principal businesses of Honghua Group Limited and its subsidiaries are manufacturing of drilling rigs, offshore engineering, manufacturing of oil & gas exploitation equipment and provision of drilling services. The Group held 254,000,000 shares of Honghua Group Limited, representing approximately 4.7% of the total issued shares of Honghua Group Limited as at the date of this announcement. During the year, the Group did not receive any dividend income from Honghua Group Limited.

Note 2: This financial asset is measured at FVOCI (non-recycling).

Note 3: This financial asset is measured at fair value through profit or loss.

Note 4: This includes a total of four unlisted trust schemes and wealth management products managed by PRC banks and the value of each product accounts for no more than 5% of the audited total assets of the Group as at 31 December 2019.

Note 5: This includes a total of three interest bearing structural bank deposits in the PRC and the value of each product accounts for no more than 5% of the audited total assets of the Group as at 31 December 2019.

For more details of the Group's other financial assets, please refer to note 11 in this announcement. Looking ahead, the Group anticipates to receive investment income from these investments and we intend to actively explore other potential investment opportunities to maximise shareholders' value.

VII. DEBT TO EQUITY RATIO

The debt to equity ratio (calculated by dividing total interest-bearing borrowings by total equity) as at 31 December 2019 was approximately 10%, representing an increase by approximately 1% as compared with the debt to equity ratio of approximately 9% as at 31 December 2018, which indicated a stable financial position and a low gearing level of the Group.

VIII. TREASURY POLICIES

The business activities and operation of the Group are mainly carried out in Mainland China and Hong Kong, with transactions denominated in RMB, HKD and United States dollars, which exposes the Group to foreign currency risks. The HKD-denominated bank borrowings of the Group of approximately HK\$200 million were based on floating interest rates, which exposed the Group to interest rate risks. The Group will use interest rate and foreign currency swaps and forward foreign exchange contracts as and when appropriate for risk management and hedging purposes with a view to managing the Group's exposure to interest rate and foreign exchange rate fluctuations. It is the Group's policy not to enter into derivative financing transactions for speculative purposes. It is also the Group's policy not to invest in financial products with significant underlying leverage or derivative exposure including hedge funds or similar instruments.

IX. INTEREST RATE RISK

As at 31 December 2019, the Group's bank borrowings were denominated in HKD and RMB, of which the RMB-denominated bank borrowings of approximately RMB70 million were based on fixed interest rates, and the HKD-denominated borrowings of approximately HK\$200 million were based on floating interest rates. The floating interest rates are stabilised at a low level because the banks in Hong Kong have sufficient capital and strong liquidity and there is no urgent need to increase the interest rates. Although the Group does not have any hedging measures against such interest rate risks, the Group will continue to closely monitor the risks arising from such interest rate fluctuation. When interest rate rises, hedging instruments will be used in due course against the interest rate risks caused by the HKD-denominated bank borrowings which are based on floating interest rates.

X. FOREIGN EXCHANGE RISK

During the year under review, the Group's businesses were principally conducted in RMB, while most of the Group's assets and liabilities were denominated in HKD and RMB. Any fluctuation in the exchange rate of HKD against RMB may have an impact on the Group's results. As at 31 December 2019, the net assets of the Group's business within the territory of the PRC were approximately RMB1,936.24 million. According to HKASs, such amount of net assets denominated in RMB should be converted at the exchange rate applicable as at the end of the reporting period. Due to the decrease in foreign exchange reserve by approximately HK\$58.30 million as a result of the depreciation of RMB during the year, there had been a decrease in net assets of the Group. Although foreign currency fluctuations did not pose significant risks to the Group during the year and the Group does not have any hedging measures against such exchange risks currently, the Group will continue to closely monitor the risks arising from such currency fluctuations.

XI. PLEDGE OF ASSETS

As at 31 December 2019, pledged bank deposits of the Group in the sum of approximately HK\$4.19 million were pledged as security for banking facilities granted to mortgagees (as at 31 December 2018: approximately HK\$1.26 million). The remaining balance of approximately HK\$0.27 million of the Group's pledged bank deposit (as at 31 December 2018: approximately HK\$2.56 million) was guaranteed deposits.

XII. COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2019, the capital commitments of the Group included the purchase of property, plant and equipment. The purchase was funded by internal resources of the Group. Please refer to notes 15 and 16 to this announcement for details of the contingent liabilities and capital commitments.

XIII. FUTURE PLANS OF MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in this announcement, the Group does not have any future plans for other material investments or capital assets in the coming year.

HUMAN RESOURCES AND EMOLUMENT POLICY

As at 31 December 2019, the Group employed a total of 291 employees (as at 31 December 2018: 267), of which 12 (as at 31 December 2018: 11) were based in Hong Kong and 279 (as at 31 December 2018: 256) were based in the PRC. During the year, the total staff costs of the Group (including directors emoluments and provident funds) were approximately HK\$59.06 million. Employee's remunerations are determined in accordance with their experiences, competence, qualifications, nature of duties, and current market trend. Apart from basic salary, discretionary bonus and other incentives are offered to employees of the Group to reward their performance and contributions. The emoluments of the Directors are determined having regard to the Company's corporate goals and the individual performance of the Directors.

The Company has adopted a share option scheme under which the Company may grant options to Directors and eligible employees to subscribe for shares of the Company. The Company has also adopted a share award scheme, under which shares of the Company will be awarded, with the approval of the Board, to selected employees to recognise their contribution and to give them incentives in order to facilitate their retention for the continual operation and development of the Group, as well as to attract suitable personnel for the growth and further development of the Group.

In addition, the Group provides or subsidises various training programmes and courses to its employees according to business needs. The Group ensures that its employees are kept updated with relevant laws and regulations, such as the Listing Rules, accounting standards, risk management knowledge, labour regulations and the employee's code of conduct.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted its own code of conduct ("**Code of Conduct**") regarding Directors' securities transactions on terms no less exacting than the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry to each of the Directors, the Company has received confirmations from all Directors that they have complied with the required standards as set out in the Code of Conduct and the Model Code during the year ended 31 December 2019.

INDEPENDENT NON-EXECUTIVE DIRECTORS

During the year ended 31 December 2019, the Company has complied with provisions of Rules 3.10 and 3.10A of the Listing Rules that a sufficient number of independent non-executive directors shall be appointed by listed issuers and that at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise. For the detailed profile of the independent non-executive Directors, please refer to the section headed “Biographies of Directors and Senior Management” in the annual report of the Company to be issued for the year ended 31 December 2019.

CORPORATE GOVERNANCE

The Board considers that good corporate governance is vital to the healthy and sustainable development of the Group. In the opinion of the Directors, the Company has complied with all the code provisions of the Corporate Governance Code (“**CG Code**”) as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2019, save as disclosed below:

During the period from 1 December 2018 to 22 October 2019, Mr. Zhang Bin performed both the roles of the Acting Chairman/Chairman of the Board and the Managing Director which constituted a deviation from Code Provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive should not be performed by the same individual.

Mr. Zhang Bin, who had been the then Managing Director of the Company, was appointed as the Acting Chairman of the Board on 1 December 2018 upon the resignation of the former Chairman of the Board, Mr. Yuan Shaoli. Mr. Zhang was subsequently appointed as the Chairman of the Board with effect from 26 June 2019 and continued to act as the Managing Director of the Company. On 22 October 2019, Mr. Zhang resigned as the Managing Director upon the appointment of Mr. Yang Tianzhou as an executive Director, who replaced Mr. Zhang as the new Managing Director of the Company on the same date.

The Board believed that it was in the best interest of the Company to have Mr. Zhang Bin taking up both the roles of the Acting Chairman/Chairman and the Managing Director as an interim measure to maintain effective management and business development of the Group before the Company could identify a suitable candidate for the position of Managing Director. Since 22 October 2019, the Company has re-complied with Code Provision A.2.1 of the Corporate Governance Code by having the roles of Chairman and Managing Director separated and performed by different individuals.

AUDIT COMMITTEE

The audit committee of the Company (“**Audit Committee**”) comprises three independent non-executive Directors, namely Mr. Lee Man Chun, Tony (chairman of the Audit Committee), Professor Chang Qing and Professor He Jia. The principal duties of the Audit Committee include the review of the Company’s financial reporting procedures, risk management and internal controls and results of the Group. The audited consolidated financial statements of the Company for the year ended 31 December 2019 have been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company has established the remuneration committee (“**Remuneration Committee**”) which comprises two independent non-executive Directors, namely Professor He Jia (chairman of the Remuneration Committee) and Mr. Lee Man Chun, Tony, and an executive Director, namely Mr. Zhang Bin. The Remuneration Committee is primarily responsible for making recommendations to the Board on the remuneration policy and structure of the Company as well as on the remuneration packages of the members of the Board and the senior management of the Company.

NOMINATION COMMITTEE

The Company has established a nomination committee (“**Nomination Committee**”) which comprises two independent non-executive Directors, namely Professor Chang Qing (chairman of the Nomination Committee) and Mr. Lee Man Chun, Tony, and an executive Director, namely Mr. Zhang Bin. The Nomination Committee is responsible for nominating potential candidates for directorship appointment and succession planning of the Board, reviewing the composition and structure of the Board from time to time and making appropriate recommendation to the Board in order to ensure the balance of expertise, skills and experience among the members of the Board.

SCOPE OF WORK OF BDO LIMITED ON THE PRELIMINARY RESULTS ANNOUNCEMENT

The figures in respect of the Group’s consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary results announcement have been agreed by the Group’s auditor, BDO Limited, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk and the Company's website at www.irasia.com/listco/hk/chengtong. The annual report of the Company for the year ended 31 December 2019 will be available on both websites and despatched to the shareholders of the Company in due course.

By order of the Board
China Chengtong Development Group Limited
Zhang Bin
Chairman

Hong Kong, 24 February 2020

As at the date of this announcement, the executive Directors are Mr. Zhang Bin, Mr. Yang Tianzhou, Mr. Wang Tianlin and Mr. Li Shufang; and the independent non-executive Directors are Professor Chang Qing, Mr. Lee Man Chun, Tony and Professor He Jia.